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SUBJECT: CALDERON ANNOUNCES MORE MEASURES TO STIMULATE ECONOMY

1)REF A: Mexico 33

2)REF B. 2008 Mexico 3752

¶1. (SBU) SUMMARY. President Calderon announced on January 7 a new set of measures to help offset the impact of the global financial and economic crisis and stimulate the economy. "The National Accord in Favor of the Families' Economy and Employment" is the third economic program announced by the current administration. Previous proposals were announced in March and October 2008. Calderon's new proposal focuses on job creation, avoiding layoffs, pension protection, lowering electricity rates, freezing gasoline and gas prices and boosting investment in infrastructure. The announcement was hailed by private industry groups and includes commitments from the private sector, employers' confederations, local governments and lawmakers. In his announcement, Calderon said the nation faced a period of great difficulty and rising unemployment but that fundamentals were solid. The government now admits that Mexico will likely see little or no growth in 2009. END SUMMARY

¶2. (SBU) In his televised address on January 7, Calderon noted that the Mexican economy faced a period of great difficulty and rising unemployment, but was better prepared to face the economic crisis thanks to its solid economic fundamentals, high foreign reserves, low foreign debt, and solid financial system. Notwithstanding, he explained that given the deterioration of key economic variables and the deepening of the crisis, his cabinet decided to implement new actions to soften the effects of the expected economic recession.

¶3. (SBU) This is the third economic program announced by the government. The first one "Program to Support to the Economy" was announced on March 3, 2008, and the second one "Program to Stimulate Growth and Employment" was launched on October 8, 2008. The first included a set of tax incentives, as well as social security and energy rates reductions; and the second was aimed at increasing spending in infrastructure, the construction of a refinery, support to small and medium-sized businesses, and finally the elimination and streamlining of import duties.

¶4. (SBU) The plan includes five main pillars of action to be implemented by the government, as well as various commitments agreed to by the private sector, employers' confederations, local governments and lawmakers. Calderon has invited more sectors to join the pact. The actions to be implemented by the government are:

SUPPORT FOR JOBS AND WORKERS

15. (SBU) The government will promote new hiring and measures to protect existing jobs in vulnerable companies, such as in the auto industry and other export sectors. The government will channel US\$ 148 million to those companies that are forced to call for technical stoppages. This measure is expected to protect around 500,000 jobs in those industries. The plan will also provide additional temporary unemployment insurance that includes training programs and healthcare services; expanding the current temporary public works employment program by 40% of what was initially planned to cover 250,000 Mexicans, for jobs building and maintaining schools, hospitals, archaeological ruins, and roads. Unemployed workers will be able to take money out of their pension funds before retirement without penalty. In order to protect pensions, the government will channel US\$ 1 billion to these accounts. Calderon also plans to expand social and health coverage for people who lose their jobs and will allocate US\$ 193 million to pay for this coverage, and finally the national employment service will be strengthened with more resources.

ECONOMIC SUPPORT FOR FAMILIES

16. (SBU) The government will freeze the price of gasoline and reduce the price of LPG by 10% during the year. This measure will generate savings of US\$ 3.3 billion. The government will provide Mexican families with direct financing of around US\$ 56 million to replace their house appliances. This measure will not only support families but also industry and the government's energy efficiency and cleaner energy goals. The government will funnel US\$ 548 million in direct supports for the acquisition of low-income housing.

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HELPING SMEs COMPETE

17. (SBU) The government pledged to reduce electricity rates by 20%, 17% and 9% depending on consumption levels. (NOTE: Post previously reported in ref B that the private sector had possibly managed to extract a promise from the Calderon Administration to reduce energy costs in exchange for its support for a tariff reduction scheme. This electricity reduction pledge for SME's may be the fulfillment of that promise. END NOTE) The government also committed to procure at least 20% of its purchases from domestic companies and provide them with technical and economic support through the "Mexico Empeñe" program.

18. (SBU) A trust fund will be created with US\$ 370 million to develop SMEs in the oil industry. NAFIN and Bancomext will increase the amount to provide direct and indirect financing by 20% and Finrural will provide more financing, approximately 10% more, to the agricultural sector. In total, the development bank will increase its financing to the productive sector by 26% in 2009. The government will support and register the trademark "Made in Mexico" in order to stimulate the domestic industry.

INVESTMENT IN INFRASTRUCTURE

19. (SBU) The government will accelerate the implementation of the previously-announced National Infrastructure Plan (PNI) with a record public and private investment in 2009 of US\$ 42 billions. Thanks to last year's increased tax collection and oil windfalls, Pemex and the states will have more resources this year for infrastructure projects. Banobras and the Infrastructure Trust Fund created last year for the PNI will provide financing for infrastructure projects.

MORE TRANSPARENT AND EFFICIENT PUBLIC SPENDING

110. (SBU) Calderon pledged to expedite public spending in infrastructure. He instructed his cabinet and signed 21 agreements with local governments to issue the operation rules in the Official Gazette since January 1, 2009 to begin spending in infrastructure projects. Through this commitment, public spending during the first quarter of the year will be 51% more than what was spent during the same period of the previous year. Calderon noted that the hedging

of oil revenues will help the government spend more resources in infrastructure.

11. (SBU) COMMENT. With this plan, the Government of Mexico has positioned itself pro-actively to build on its solid economic fundamentals to implement actions that would help offset the impact of the crisis. Facing the prospect of little or no growth in 2009, not to mention the July 2009 legislative elections, Calderon announced this new plan with great fanfare and purpose. One new element is the public support from the private sector and labor groups. Critics have called this plan yet another "band-aid". Observers say the plan will probably do less to avoid the contraction of real GDP and loss of jobs than help limit the adverse impact of the recession on workers and families. A Finance Secretariat contact told us that the government remained strongly committed to implementing a set of countercyclical measures and using all the available tools to stimulate the shrinking economy in the medium term. Naturally, the government is also hopeful that the economic measures implemented by the incoming USG administration to stimulate the U.S. economy might in turn positively impact the Mexican economy, which still relies heavily on its neighbor's strengths.

GARZA